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Market Development Reports

Food Business Line

Periodic Press Translation from ATO Tokyo

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Report Highlights:

Tesco, the supermarket giant from the U.K. will enter the Japanese retail supermarket after acquiring *C Two-Network*; *Tully's Coffee* and *Starbuck's Coffee Japan* will begin offering *sozai* side-dish meals to consumers in the HRI *nakashoku* market; *McDonald's Japan* will discontinue its discount hamburger campaign; Recent increased strength of the Euro against the Japanese Yen will result in increased prices for cheese, wine and snacks imported from Europe; Japan's Health, Labor, and Welfare Ministry issues warnings to pregnant women about mercury levels in seafood and; A U.S. Cranberry Bakery Seminar held in Tokyo and Kobe featured a baking demonstration by a member of the Bread Bakers Guild Team USA.

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Food Business Line

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Retail/Wholesale

- U.K.'s supermarket giant *Tesco* announced on June 10 that it plans to acquire *C Two-Network*, a Japanese supermarket chain operator. *Tesco*'s Finance Director stated that although *C Two-Network*'s operations are small in size, it is a successful operator and it will allow for a complete buyout. *Tesco* aims to operate stores nationwide, hinting at the possibility of forming more alliances with other Japanese companies. (a 6/11)
- *Family Mart* started providing sales data from its convenience stores directly to its six suppliers (*Coca-Cola Japan*, *Kirin Beverage*, *Nissin Food Products*, *Suntory Foods*, and two candy manufacturers) through the Internet in an aim to reduce the risk of excess inventory and over/underproduction. The new system will also make it easier to target marketing campaigns in regions with poor sales. *Family Mart* plans to fully launch the program by September and increase distribution of the sales reports to more of its suppliers. (a 6/12)
- The number of member-companies in the *Japan Department Store Association* declined to 99 this year, going below 100 for the first time since 1964. This results in a decline of 29% since the peak in 1999. (b 6/12)

Food Service

- More food service outlets based in Tohoku (northern region of Japan) are opening outlets in central Tokyo. These restaurants, featuring local specialties such as Akita Prefecture's Hinai chicken, Fukushima Prefecture's Beef Tongue and Ramen noodle, are gaining in popularity. The reasons for their recent success are believed to be due to their decision to conserve strength by not getting involved in the severe competitive fervor during the Japanese bubble economy. Also, despite the food scandals that plagued other parts of the industry, they were able to win consumer confidence by presenting an image of *shoujiki na* food establishments. Roughly translated it means their establishments exhibited honesty in the foods they prepared and the service given to their customers. These restaurants also had the advantage of an honest image that is also attributed to Tohoku region's local culture. (6/3 Yahoo! News)
- New restaurant and food service chain operators are entering the Japan's growing Nakashoku or *sozai* side-dish (deli) market. For example, *Tully's Coffee* chain will begin selling salads, lasagna and other daily dishes in 40 of its stores during fiscal 2003. *Starbucks Coffee Japan* plans to open a large outlet in *Takashimaya Department Store* in September, selling freshly cooked western-style deli foods. *Ootoya* is also starting to sell *bento* lunch boxes in their stores. (a 6/12)
- *McDonald's Japan* announced that as of July 1, it will discontinue the ¥59 discounted price on hamburgers and begin selling at the pre-campaign price of ¥80. As part of their new strategy to increase revenue, *McDonald's* plans to attract an increase in customers by introducing new meal offerings. (b 6/12)

Food Processing/New Products/Market Trends

- Despite an amendment to Japan's Road Traffic Act, made effective on June 1, 2002 reinforcing the regulation and penalties for drinking and driving, sales of non-alcoholic beverages have been steadily growing. Beverages containing less than 1% alcohol are not classified as liquor under the Japan's Liquor Tax Law. However, the *Japan Women's Federation* appealed to the Fair Trade Committee, saying that products labeled as "Non-alcohol" or "Alcohol-Free" are misleading, emphasizing that these products are not totally alcohol-free. (a 6/4)
- The number of companies reporting deficits among the 104 major food manufacturers at the end of the fiscal year in March 2003 declined, despite an overall decline in sales of 1.9%. This was especially true among livestock companies. Only seven companies reported a deficit for consolidated working profit, 10 less than the previous year. However, the deflated economy still remains, and definite signs of improvement are yet to be seen. (f 6/5)
- The euro climbed as high as ¥140 up from ¥115 last Fall. As a result, some trading companies are raising the prices of cheese, wine, and snack imported from European countries to cover the exchange rate deficit. (f 6/9)
- Since the enforcement of the tax increase for *happoshu* low-malt beer in May, beer companies are introducing new low-alcohol beverage products such as *Chu-hi* to cover the loss of declined beer and low-malt beer sales. (a 6/12)
- The sales volume of low-malt beer in *Family Mart* convenience stores increased by 9.4% in May compared to the same month last year. *Family Mart* maintained the price of low-malt beer products despite the tax increase that became effective in May, and as a result, its strategy succeeded in attracting more customers. (b 6/12)

Food Safety/Consumer Awareness

- Japan's Health, Labor, and Welfare Ministry (MHLW) warned pregnant women not to eat broadbill swordfish and alfonso more than two times a week due to possible harm to the fetus caused by mercury in the fish. MHLW also plans to advise pregnant women to limit their consumption of shark and sperm whale meat to no more than once a week and bottlenose dolphin to no more than once in two months. (a 6/3)
- According to a survey of 20,000 housewives by *Nikkei BP*, *Queens Isetan*, an upscale supermarket, ranked top in customer satisfaction ratings. The second most favored supermarket was *Belc*, a Saitama prefecture-based supermarket, and tied for the third were *Sapporo Tokyu Store* and *York Benimaru*. The survey revealed that the most important factor in raising consumer satisfaction levels was the freshness and variety of perishable foods. (b 6/12)

ATO/Cooperator/Competitor Activities/Trade Shows

ATO Comments: A U.S. Cranberry Bakery Seminar was held on June 4 & 5 in Tokyo and Kobe. Approximately 105 persons attended, with 54 attendees in Tokyo and 51 in Kobe, consisting of bakery technicians 45%, wholesalers 16%, importers 5%, Café 1%, and others 33%. A video was shown explaining how cranberries are produced and shipped. Afterwards, Mr. Tim Healea, a bakery technician and member of the Bread Bakers Guild Team-USA, which won second prize in 2002 at the *Coupe du Monde de la Boulangerie* (World Cup of

Baking), performed baking demonstrations for eight types of bread using cranberries. The Director of ATO Tokyo also provided remarks emphasizing the health benefits of cranberries.

œ Sources œ

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| (a) The Japan Economic Newspaper | (b) The Nikkei Marketing Journal |
| (c) The Japan Food Journal | (d) The Beverage & Food News Commentary |
| (e) The Japan Food News | (f) The Food Industry News |

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